

VZCZCXRO0252  
PP RUEHCD RUEHGD RUEHHO RUEHMC RUEHNG RUEHNL RUEHRD RUEHRS RUEHTM  
DE RUEHME #1097/01 1021718  
ZNR UUUUU ZZH  
P 111718Z APR 08  
FM AMEMBASSY MEXICO  
TO RUEHC/SECSTATE WASHDC PRIORITY 1402  
INFO RUEHXC/ALL US CONSULATES IN MEXICO COLLECTIVE  
RHMFIUU/DEPT OF JUSTICE WASHINGTON DC  
RUEABND/DEA HQS WASHINGTON DC  
RUEAHLA/DEPT OF HOMELAND SECURITY  
RHEHNSC/NSC WASHINGTON DC  
RHMFIUU/CDR USSOUTHCOM MIAMI FL  
RHMFIUU/CDR USNORTHCOM  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC  
RUEATRS/DEPT OF TREASURY WASHINGTON DC

UNCLAS SECTION 01 OF 05 MEXICO 001097

SIPDIS

SENSITIVE  
SIPDIS

STATE FOR A/S SHANNON  
STATE FOR WHA/MEX, WHA/EPSC, EB/IFD/OMA, S/CT FINANCE  
STATE FOR EB/ESC MCMANUS AND IZZO  
FINCEN FOR CARA BROADHEAD  
TREASURY FOR IA (ANNA JEWEL, LUYEN TRAN)  
TREASURY FOR TFFC (RACHEL FEDEWA)  
DOJ AFMLS FOR ROBERT STAPLETON  
DHS/PLCY/OIA  
CBP/OIA AC MULLEN  
ICE/OIA M VANACORE  
NSC FOR RICHARD MILES, DAN FISK  
STATE PASS TO USTR (EISSENSTAT/MELLE)  
STATE PASS TO FEDERAL RESERVE (ANDREA RAFFO)

E.O. 12958: N/A

TAGS: [EFIN](#) [ETRD](#) [KTFN](#) [PTER](#) [MX](#)

SUBJECT: VISITING FINCEN DIRECTOR DISCUSSES ANTI-MONEY  
LAUNDERING COOPERATION WITH MEXICAN OFFICIALS

¶1. (U) This is a joint message from Embassy Mexico City and  
FincEN.

¶2. (SBU) Summary: Financial Crimes Enforcement Network  
(FincEN) Director James H. Freis, Jr. visited Mexico City  
19-23 February to meet with senior Mexican officials and  
address a joint FincEN-FIU strategic analysis training  
seminar for Central American FIUs conducted 18-21 February.  
Specifically, Director Freis met with Finance Secretary  
Agustin Carstens; Luis Urrutia, Director of the Financial  
Intelligence Unit (FIU); Guillermo Babatz, President the  
National Banking and Securities Commission (CNBV); and Jose  
Quijano, Director General of Financial System Analysis at the  
Bank of Mexico (BOM). The meetings concentrated on FincEN's  
Southwest Border Report and collaboration with the FIU on  
money laundering issues. Throughout the meetings, Government  
of Mexico (GOM) officials communicated a strong resolve to  
form a deeper collaboration with their counterparts in the  
United States and increase their efforts to fight money  
laundering and bulk cash smuggling. Of particular note,  
Secretary Carstens endorsed a joint FIU-FincEN analytical

SIPDIS

study to examine mechanisms of money flows between our  
countries. End Summary.

-----  
Finance Secretary Carstens  
-----

¶3. (SBU) Discussions with Finance Secretary Carstens centered  
on FincEN's December 2007 Southwest Border: Analysis of  
Currency Flow Issues Report (Southwest Border Report) and  
planned future collaboration between FincEN and the FIU to  
examine the issue further. The Southwest Border Report

examines processes related to cross-border movement of currency between the United States and Mexico, and how various factors affect trends in currency repatriated from Mexico. Data analyzed for this report suggest a large imbalance between the amount of U.S. currency that travels to Mexico, and the amount of U.S. currency returned from Mexico through traditional banking channels. FinCEN's analysis of Currency Transaction Reports, CTRs, and other data indicate that approximately USD 9-10 billion of cash returned to the United States in 2006 remains unexplained by available estimates of legitimate activity. See paragraph 23 for distribution details.

¶4. (SBU) Director Freis provided a copy of the Southwest Border Report and discussed future collaboration with the FIU to examine the issue further. Secretary Carstens expressed his appreciation for sharing the report with the Government of Mexico (GOM), and gave his approval for the FIU and FinCEN to begin work on a combined cash flow study. In discussing whether any product between FinCEN and the FIU should be made public, Carstens opined that the FIU has been extremely effective while keeping a low profile, and voiced concern that increased visibility and public attention might lead to increased security concerns for the FIU.

¶5. (SBU) In subsequent discussion between FinCEN and the FIU, the GOM proposed that FinCEN and the FIU analyze the whole cycle of currency flows that derive from sales of illicit drugs in the United States. The FIU will contribute with all of the information it has contained within its databases and data obtained from the Bank of Mexico (BOM). The GOM anticipates that FinCEN will reciprocate in sharing similar data as well as data obtained from the Federal Reserve. Director Freis and FIU Director Luis Urrutia have maintained an open dialogue on plans for the combined study and will

MEXICO 00001097 002 OF 005

meet in Washington on April 14 to further discuss the way ahead.

-----  
National Banking and Securities Commission  
-----

¶6. (SBU) Guillermo Babatz, President of the National Banking and Securities Commission (CNBV), also discussed money laundering and bulk cash smuggling issues with FinCEN. Babatz told Director Freis this issue is a top priority for President Calderon and, accordingly, important for the relevant GOM agencies. Various agencies are beefing up their efforts to combat money laundering and bulk cash smuggling by increasing personnel and training opportunities. Moreover, there is a push to improve coordination among counterpart agencies. Babatz remarked that CNBV's relations with the Attorney General's Office have improved due to better communication.

¶7. (SBU) Regarding bank clients that buy large quantities of U.S. dollars, Babatz remarked that it is often a challenge to discern legitimate transactions from illegitimate ones. According to Babatz, the CNBV would like to conduct a study to get a better handle on which companies/sectors buy cash at a bulk discount for a legitimate purpose. Developing such profiles will help Mexico single out illicit activities.

¶8. (SBU) Separately, Babatz expressed his concern regarding U.S. banks associating a high level of risk with casas de cambio (regulated money exchange houses or "CC") accounts since the Casa de Cambio Puebla case. (Note: Puebla used its correspondent accounts with Wachovia and Harris Bank to launder money on behalf of Mexican cartels. End Note.) According to Babatz, U.S. banks are closing their correspondent CC accounts -- which is basically putting the casas de cambio out of business. He remarked that he would be surprised if there were any CCs left by the end of the year due to consolidations/mergers and business closures.

Babatz is concerned that CC cash flows will shift to less regulated institutions such as centros cambiarios (unlicensed money exchange houses).

¶9. (SBU) Babatz requested the United States and Mexico discuss and coordinate actions that could have repercussions for Mexico's financial system. Babatz expressed his concern over the potential press reaction to any further actions, and the possibility that negative press on CCs will create a domino effect and potentially cause problems for Mexican banks. He does not want future law enforcement and regulatory actions to affect confidence in the Mexican financial system by creating the impression that the Mexican financial system is a "complete mess." Babatz told FinCEN and Econoff that he understands cooperation among U.S. and Mexican law enforcement agencies has improved, and suggested this may "help the problem take care of itself."

-----  
Financial Intelligence Unit  
-----

¶10. (SBU) Freis and his team met with the head of Mexico's Financial Intelligence Unit, Luis Urrutia, and the FIU's strategic analysis staff to discuss FIU operations and future collaboration.

¶11. (SBU) FIU Operations: The FIU is in the process of modernizing its IT capabilities. Although the FIU originally

MEXICO 00001097 003 OF 005

planned to implement the UN's anti-money laundering platform (goAML), Director Urrutia is now exploring additional options, including the possible creation of a Mexican system. Urrutia will make a final decision once he visits the Canadian, Spanish, and French FIUs to review their systems.

¶12. (SBU) Data Quality: The FIU will also revise its suspicious activity report (SAR) form to include more fields to capture additional information from reporting entities. In terms of providing feedback to reporting entities, the FIU will begin to send feedback about SAR quality on a quarterly basis. According to Urrutia, the FIU has a feedback system in place and is currently in the testing process.

¶13. (SBU) In 2004, centros cambiarios were mandated to report to the SAT, the Mexican tax authority; however, the FIU has yet to receive quality reporting from these institutions. The FIU is hopeful that the SAT has worked through its IT issues to permit effective reporting and expects to receive new test reports from this sector in May 2008.

¶14. (SBU) FIU officials said that the GOM intended to release a national strategy to combat money laundering in March. The strategy would identify money laundering risks and vulnerabilities. In addition, the FIU will undertake risk assessments of identified vulnerable sectors. Urrutia indicated that identifying who will be the regulator of new reporting entities will be a challenge for the GOM in the near future. (Comment: The concerns noted in paragraphs 12-14 will be addressed in part by the USD 1 million training package that the USG is providing GOM anti-money laundering entities. Specifically, the USG will address issues associated with prudential (Basel norms) risk-based assessments of money services businesses through hands-on seminars. These workshops will provide background to establish monitoring guidelines for the SAT. Moreover, in the training planned for the FIU, Treasury experts will review the planned changes to the 13 different reporting formats for SAR and CTR financial industry reporting to attempt to help standardize the information for inclusion in FIU databases that will be analyzed by data mining software for sophisticated link analysis. This information is planned to be used in conjunction with the APIS (Advance Passenger Information System) information now received by SAT's General Customs Office. End Comment.)

-----  
Central American FIU Training  
-----

¶15. (U) Freis and Urrutia provided closing remarks to a joint FinCEN-FIU strategic analysis training seminar for Central American FIUs. The training was conducted 18-21 February and marked the first joint training initiative between FinCEN and the FIU. Focused on enhancing Central American FIUs understanding of strategic analysis concepts, the training was attended by representatives of the following FIUs: Guatemala, Honduras, Belize, El Salvador, Panama, Colombia, Canada, Mexico and the United States.

-----  
Bank of Mexico  
-----

¶16. (SBU) Freis and Urrutia also met with the Bank of Mexico's Director General of Financial System Analysis, Jose Quijano Leon, and Patricia Torres of the Attorney General's Office to discuss information the BOM receives from Mexican

MEXICO 00001097 004 OF 005

financial institutions and how the FIU and FinCEN might use this information to inform a joint money flow study.

¶17. (SBU) Quijano explained that the BOM was not involved in anti-money laundering efforts except for those that related to the safety and soundness of the Mexican financial system. As the regulator of foreign exchange transactions, the Finance Secretariat asked the BOM to examine transactions to see if new regulation would need to be created. According to Quijano, the GOM wanted to know how many dollars the banks were buying on an aggregated basis from companies and individuals. The BOM began collecting this information in ¶2006.

¶18. (SBU) The BOM routinely sends questionnaires to all reporting institutions, such as banks, casas de cambio, broker dealers, large companies that conduct business in the USD 1 million range, and companies conducting business in U.S. currency in the USD 3,000-1 million range. The questionnaire collects the following information, which is reported on a quarterly basis: transactions with financial intermediaries; cash deposits; foreign exchange cash transactions; and the buying and selling of used U.S. dollars. Institutions also must report on a monthly basis the amount of dollars repatriated back to the U.S. by denomination. Quijano noted that the BOM does not receive information on every transaction, only aggregate amounts. He also noted the BOM requires casas de cambio to classify transactions -- i.e. if the casa does transactions on behalf of centros cambiarios. Quijano acknowledged that this reporting has not been very precise.

¶19. (SBU) Quijano explained that the BOM views itself as the collector of these data and a conduit between institutions providing this information and other GOM agencies. Through a memorandum of understanding, the BOM can share these data with other GOM authorities. Quijano advised that the BOM has received and processed information for 2007. Quijano stated that it would be good to compare Mexico's data with similar USG information to determine whether new regulation is needed.

¶20. (SBU) Quijano estimated that most of the exportation of U.S. dollars has a legal or legitimate basis, such as large retail institutions on the borders. These institutions receive U.S. cash and deposit it into the bank. The bank will then export the cash immediately. In addition, Quijano raised the theory that entities are buying dollars at a discount and paying suppliers abroad.

¶21. (SBU) According to Quijano, the GOM is investigating the

appropriate level of control for U.S. cash transactions. One proposal is to lower the current reporting threshold from USD 3,000 to USD 2,000. Banks have proposed enacting a ceiling based on the risk of a client. For instance, if the transaction is USD 500 or above, the bank would need to file a report and exercise more controls.

¶22. (SBU) Freis shared with Quijano FinCEN's Southwest Border Report and discussed the joint cash flow study between FinCEN and the FIU. Freis expressed the desire for the United States and Mexico to educate the public about legitimate flows between our borders, while focusing on finding the illegitimate. Quijano expressed his support for the project but stipulated that a legal basis must be arranged with the Finance Secretariat about sharing its reports between the FIU and FinCEN. Furthermore, Quijano stated that the sensitivity of its information will need to be discussed with the

MEXICO 00001097 005 OF 005

Secretary of Finance and BOM's Governor before any

SIPDIS

information could be disclosed to the public. Quijano also conveyed his concerns about a publicly released report and the potential impact it would have on consumer confidence in the Mexican financial system.

¶23. (U) FinCEN's Southwest Border Report is currently available for distribution in a Law Enforcement Sensitive version. Authorized persons may contact Ann Martin (ann.martin@fincen.gov) or Joanna Kobliska (joanna.kobliska@fincen.gov) at FinCEN's Office of Law Enforcement Support to obtain a copy.

Visit Mexico City's Classified Web Site at <http://www.state.sgov.gov/p/wha/mexicocity> and the North American Partnership Blog at <http://www.intelink.gov/communities/state/nap/> / BASSETT